



## ACTIVITY OVERVIEW

# Fiscal Reform



Ministry of Finance

USAID Croatia

### *Project completed September 2004*

Since 2001, the USAID Fiscal Reform Project assisted the Croatian Ministry of Finance to implement two key reforms. First, the project introduced a modern treasury system and related accounting and financial process reforms to improve the efficiency and transparency of the Ministry's financial operations. Second, the project provided technical and policy advice to support the decentralization of public services from the national level to down to local governments. In the area of Financial Management Systems/Process Improvement the major activities of the:

- Assistance with the implementation of the SAP Financial Management Information System;
- Assistance with improving processes, procedures and organization of budget execution, cash management and internal audit and control; and
- In coordination with the U.S. Treasury advisor, assisting in the development of program/performance budgets for those agencies with the heaviest involvement in decentralization, in particular the Ministry of Labor and Social Protection.

In the area of fiscal decentralization, project assistance was initially focused on the establishment of the basic parameters for equalization grants and the development of the basic structure for the equalization fund. More recently our work has involved developing a strategy that would give effect to the decentralization of a range of public services and changing the system of financing Croatia's local governments. This included the preparation of a "Decentralization Vision and Strategy", which attempts to set out the key principles and a strategy for further decentralization of government services.

Specific recommendations have been made in relation to grant formulae, use of local government own revenues, tax sharing, functions to be decentralized, and appropriate levels/size of local government structures. Under the umbrella of decentralization, the project has also provided assistance in developing a methodology and implementation strategy for the introduction of a western-style property tax to be created from the existing communal fee/charge system.

Implementer: Bearing Point

Partners: Ministry of Finance